

**CONTRACT #6**  
**RFS # 309.01-017**

**Treasury Department**

**Baccalaureate Education  
System Trust (BEST)**

**VENDOR:**  
**TIAA-CREF Tuition  
Financing, Inc.**

STATE OF TENNESSEE



DALE SIMS  
STATE TREASURER

TREASURY DEPARTMENT  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0225

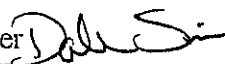
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MAR 15 2007

MEMORANDUM

FISCAL REVIEW

TO: The Honorable M. D. Goetz, Jr., Commissioner  
Department of Finance and Administration

FROM: Dale Sims, Treasurer   
Department of the Treasury

DATE: March 13, 2007

RE: *Noncompetitive Amendment Request – BEST Savings Plan Administrative  
and Investment Management Services Contract Between the Tennessee  
Treasury Department and TIAA-CREF Tuition Financing, Inc.*

INTRODUCTION

A college savings plan under section 529 of the Internal Revenue Code provides certain tax advantages to citizens using the program and provides a method for saving toward the cost for a student to attend college. Tennessee makes two types of 529 college savings plans available to the citizens of Tennessee.

One plan that Tennessee provides is referred to as the pre-paid plan whereby units are purchased which grow in value at the rate of increase of the weighted average tuition (and fees) of the four-year public universities in Tennessee. The second plan is called the savings plan, which grows in value based on the yield of the underlying securities of the portfolio selected. Tennessee's savings plan has three investment choices: an aged based portfolio option, a 100% equity option, and a guaranteed option.

A third-party vendor (TIAA-CREF Tuition Financing, Inc.) has administered the savings plan since implementation. The contract was procured pursuant to the RFP procurement process and expires on June 1, 2007.

BACKGROUND

The Baccalaureate Education System Trust (BEST) was established by State statute, whereby parents and other interested persons may assist students in saving for tuition cost of attending colleges and universities. The prepaid plan began in 1997 and has approximately 8,700 accounts with assets exceeding \$60 million. The savings plan began in 2000 and has approximately 4,200 accounts with assets exceeding \$30 million. Under

the savings plan, participants finance 100% of the administrative cost of the program as a charge against their accumulated account balance. Currently, TIAA-CREF charges an 80 basis point (8 tenths of 1%) fee. The fee was 95 basis points when savings plan began in 2000 but was reduced to 80 in 2005 when the contract was extended for two years.

With the expiration of the contract with TIAA-CREF on June 1, 2007, the Treasury Department staff has been exploring how best to continue the savings plan in a manner that is beneficial to the citizens of Tennessee.

Because Tennessee's plan is relatively small with only \$30 million, we are at a disadvantage when seeking a vendor to continue the program after the contract expires. Tennessee does not have the necessary "economies of scale" in order to offer a plan with a competitive fee relative to other plans. Moreover, the asset base is so small that it can only support a limited number of investment options.

Our current vendor has advised that it is not willing to continue the program much longer after the contract expiration date as the contract is currently structured relative to the fees and the marketing requirements. Most likely, other vendors will experience the same issues.

529 plans are evaluated by various organizations. For Tennessee's plan, Morningstar recommends investors to go elsewhere. Since Tennessee does not have an income tax and thus no tax incentive to utilize the program, Morningstar recommends investors consider a lower-cost state, particularly if investors are comfortable with the TIAA-CREF investment options. Since fees and investment options are essential components of the evaluation process performed on 529 plans, the Treasury Department has been actively exploring alternatives that would enhance the value of its 529 plan for Tennessee citizens. Jane Bryant Quinn of Newsweek Magazine has written extensively about 529 college savings plans. Quinn encourages states to offer plans with lower fees and to consider pooling efforts among states to hold down cost.

Because Tennessee does not have the asset size that generates an "economies of scale" that would provide for lower fees and more investment choices, the BEST Board has authorized Treasury to pursue pooling efforts with the State of Georgia, which has an asset base of over \$400 million. With Georgia having an asset base of over \$400 million, the pooling of assets would allow Tennessee citizens to have a lower cost program with more investment options. The states of Mississippi, Alabama, and Kentucky are also exploring the pooling option with Georgia. At this point, Tennessee is being more aggressive relative to pooling with Georgia because our third party vendor contract expires before any of the other states' third party vendor contracts. The more states that pool with the Georgia plan, the lower the fees that participants will pay because Georgia's anticipated contract with its vendor envisions lower fees as assets increase to various breakpoint levels.

The main purpose of pooling assets would be to provide a better product at a lower cost for Tennessee citizens who utilize this product for financing student expenses relative to higher education. Specific enhancements include:

- Tennessee can take advantage of “economies of scale” by joining Georgia to enhance the features of the plan. Tennessee’s plan is only \$30 million in size while Georgia’s program is \$400 million.
- Tennessee’s plan has an 80 basis point fee (8 tenths of 1% of asset value). It is anticipated that the pooling of assets could secure a fee in the 60-65 basis point range, which represents an 18%-25% reduction. There are indications that Tennessee’s 6-year-old plan with only \$30 million in assets would have difficulty attracting a vendor even at the current 80 basis point level.
- Tennessee’s plan currently has three investment choices for participants. Tennessee’s asset level of only \$30 million would not support additional investment choices. With the higher asset level by pooling assets, the proposed program would have between 9 and 14 investment options that investors would be able to select from. The various investment options would cover most investment strategies, thus allowing an investor to select a product that meets their level of risk tolerance.
- There would be a more efficient use of marketing by producing one set of marketing material. Also, there are common borders among the states that make marketing more efficient.

Pursuant to the BEST Board’s authorization, the Treasury Department staff have been actively negotiating the terms of the arrangement with the State of Georgia. However, several key provisions are still under discussion, and it may take several more months before all provisions can be finalized. As a consequence, our current vendor has agreed to continue administering the savings plan through September 30, 2007 under the current contract provisions.

## **I.**

### **DESCRIPTION OF THE PROPOSED AMENDMENT EFFECTS AND ANY ADDITIONAL SERVICE**

The contract with TIAA-CREF to administer the savings plan expires on June 1, 2007. This proposed amendment would extend the contract term for approximately four additional months through September 30, 2007 to enable the State to finalize the arrangement with the State of Georgia.

## **II.**

### **EXPLANATION OF NEED FOR THE PROPOSED AMENDMENT**

As previously indicated above, it would be in the State’s (and its citizens) best interests to extend the term of the contract through September 30, 2007. This additional time period is necessary to enable the State to continue the savings plan while finalizing the details to provide a better savings plan product at a lower cost for Tennessee citizens.

**III.  
NAME AND ADDRESS OF CONTRACTOR'S CURRENT PRINCIPAL  
OWNER(S)**

The Contractor is a for-profit corporation that is owned by a publicly traded company, which means that the Contractor is owned by numerous individual investors who have purchased its stock.

**IV.  
DOCUMENTATION OF OFFICE FOR INFORMATION RESOURCES  
ENDORSEMENT**

N/A

**V.  
DOCUMENTATION OF DEPARTMENT OF PERSONNEL ENDORSEMENT**

N/A

**VI.  
DOCUMENTATION OF STATE ARCHITECT ENDORSEMENT**

N/A

**VII.  
DESCRIPTION OF PROCURING AGENCY EFFORTS TO IDENTIFY  
REASONABLE, COMPETITIVE, PROCUREMENT ALTERNATIVES**

The current contract resulted from a Request for Proposal. The purpose of the procurement was for the implementation and management of the Savings Plan and for the investment of the Plan's assets. This amendment is merely an extension of the services currently being provided by the contractor until the State can finalize the details with the State of Georgia. The term extension would only be for approximately four months, and it would not be in the best interest of the State (and its citizens) to switch vendors for this short period of time.

**VIII.  
JUSTIFICATION FOR THE PROPOSED NON-COMPETITIVE AMENDMENT**

As stated above, the amendment is merely an extension of the services currently being provided by the contractor, i.e., to implement and manage the Savings Plan and to invest the Plan's assets. This amendment would give the State additional time within which to work out the final arrangements with the State of Georgia. The additional time is

March 13, 2007

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necessary to enable the State to continue the savings plan while finalizing the details to provide a better savings plan product at a lower cost for Tennessee citizens.

# REQUEST: NON-COMPETITIVE AMENDMENT

APPROVED

Commissioner of Finance &amp; Administration

Date:

EACH REQUEST ITEM BELOW MUST BE DETAILED OR ADDRESSED AS REQUIRED.

1) RFS #	309.01-017	
2) State Agency Name :	Tennessee Treasury Department	
<b>EXISTING CONTRACT INFORMATION</b>		
3) Service Caption :	Provides administrative and investment management services for the Savings Plan component of the Baccalaureate Education System Trust Program.	
4) Contractor :	TIAA-CREF Tuition Financing, Inc.	
5) Contract #	FA-00-13872	
6) Contract Start Date :	December 2, 1999	
7) <u>Current</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	June 1, 2007	
8) <u>Current</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$0.00	
<b>PROPOSED AMENDMENT INFORMATION</b>		
9) <u>Proposed</u> Amendment #	5	
10) <u>Proposed</u> Amendment Effective Date : (attached explanation required if date is < 60 days after F&A receipt)	June 2, 2007	
11) <u>Proposed</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	September 30, 2007	
12) <u>Proposed</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$0.00	
13) Approval Criteria : (select one)	<input checked="checked" type="checkbox"/> use of Non-Competitive Negotiation is in the best interest of the state <input type="checkbox"/> only one uniquely qualified service provider able to provide the service	
14) Description of the Proposed Amendment Effects & Any Additional Service :		
See attached memorandum dated March 13, 2007		
15) Explanation of Need for the Proposed Amendment :		

16) Name & Address of Contractor's Current Principal Owner(s) :  
(not required if proposed contractor is a state education institution)

17) Documentation of Office for Information Resources Endorsement :  
(required only if the subject service involves information technology)

select one:

☐

Documentation Not Applicable to this Request

☐

Documentation Attached to this Request

18) Documentation of Department of Personnel Endorsement :  
(required only if the subject service involves training for state employees)

select one:

☐

Documentation Not Applicable to this Request

☐

Documentation Attached to this Request

19) Documentation of State Architect Endorsement :  
(required only if the subject service involves construction or real property related services)

select one:

☐

Documentation Not Applicable to this Request

☐

Documentation Attached to this Request

20) Description of Procuring Agency Efforts to Identify Reasonable, Competitive, Procurement Alternatives :

21) Justification for the Proposed Non-Competitive Amendment :

REQUESTING AGENCY HEAD SIGNATURE & DATE :

(must be signed & dated by the ACTUAL procuring agency head as detailed on the Signature Certification on file with OCR— signature by an authorized signatory will be accepted only in documented exigent circumstances)

Dale Sin

3/13/07

Agency Head Signature

Date



AMENDMENT NUMBER FIVE  
TO CONTRACT FA-00-13872-00  
BETWEEN THE  
STATE OF TENNESSEE, BACCALAUREATE EDUCATION SYSTEM TRUST  
AND  
TIAA-CREF TUITION FINANCING, INC.

This Contract, by and between the State of Tennessee, Baccalaureate Education System Trust, hereinafter referred to as the State, and TIAA-CREF Tuition Financing, Inc., hereinafter referred to as the Contractor, is hereby amended as follows:

1. Delete Section B in its entirety and insert the following in its place:

**"B. TERM:**

This Contract shall be effective for the period commencing on December 2, 1999 and ending on September 30, 2007. The State shall have no obligation for services rendered by the Contractor which are not performed within the specified period."

The other terms and conditions of this Contract not amended hereby shall remain in full force and effect.

IN WITNESS WHEREOF:

**TIAA-CREF TUITION FINANCING, INC.:**

BY: \_\_\_\_\_  
(SIGNATURE) \_\_\_\_\_  
\_\_\_\_\_  
(TYPED OR PRINTED NAME AND TITLE)

\_\_\_\_\_ DATE

**BACCALAUREATE EDUCATION SYSTEM TRUST:**

BY: \_\_\_\_\_  
DALE SIMS, STATE TREASURER & CHAIR OF  
THE BOARD OF TRUSTEES \_\_\_\_\_  
\_\_\_\_\_ DATE

**APPROVED:  
DEPARTMENT OF FINANCE AND ADMINISTRATION:**

BY: \_\_\_\_\_  
M. D. GOETZ, JR., COMMISSIONER \_\_\_\_\_  
\_\_\_\_\_ DATE

**COMPTROLLER OF THE TREASURY**

BY: \_\_\_\_\_  
JOHN G. MORGAN, COMPTROLLER \_\_\_\_\_  
\_\_\_\_\_ DATE

# CONTRACT SUMMARY SHEET

060706

<b>RFS #</b>	<b>Contract #</b>
309.01 — 017 — 07	FA — 00-13872-05
<b>State Agency</b>	<b>State Agency Division</b>
Tennessee Treasury Department	Baccalaureate Education System Trust
<b>Contractor Name</b>	<b>Contractor ID # (FEIN or SSN)</b>
TIAA-CREF Tuition Financing, Inc.	<input type="checkbox"/> C- or <input checked="" type="checkbox"/> V- 13-4026557

**Service Description**

Provides administrative and investment services for the Savings Plan component of the Baccalaureate Education System Trust.

<b>Contract Begin Date</b>	<b>Contract End Date</b>	<b>SUBRECIPIENT or VENDOR?</b>	<b>CFDA #</b>
December 2, 1999	September 30, 2007	Vendor	

**Mark Each TRUE Statement**
☒ Contractor is on STARS

☒ Contractor's Form W-9 is on file in Accounts

Allotment Code	Cost Center	Object Code	Fund	Funding Grant Code	Funding Subgrant Code
309.01	N/A	N/A	N/A		

FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
2000	\$0.00				\$0.00
2001	\$0.00				\$0.00
2002	\$0.00				\$0.00
2003	\$0.00				\$0.00
2004	\$0.00				\$0.00
2005	\$0.00				\$0.00
2006	\$0.00				\$0.00
2007	\$0.00				\$0.00
2008	\$0.00				\$0.00
<b>TOTAL:</b>	\$0.00				\$0.00

**— COMPLETE FOR AMENDMENTS ONLY —**

FY	Base Contract & Prior Amendments	THIS Amendment ONLY	State Agency Fiscal Contact & Telephone #
2000	\$0.00		Mary Roberts-Krause, General Counsel 10 <sup>th</sup> Floor, Andrew Jackson Building 741-8202, extension 104
2001	\$0.00		<b>State Agency Budget Officer Approval</b>        <b>Funding Certification</b> (certification, required by T.C.A., § 9-4-5113, that there is a balance in the appropriation from which the obligated expenditure is required to be paid that is not otherwise encumbered to pay obligations previously incurred)
2002	\$0.00		
2003	\$0.00		
2004	\$0.00		
2005	\$0.00		
2006	\$0.00		
2007	\$0.00	\$0.00	
2008	\$0.00	\$0.00	
<b>TOTAL:</b>	\$0.00	\$0.00	
<b>End Date:</b>	June 1, 2007	September 30, 2007	

Contractor Ownership (complete only for base contracts with contract # prefix: FA or GR)

<input type="checkbox"/> African American	<input type="checkbox"/> Person w/ Disability	<input type="checkbox"/> Hispanic	<input type="checkbox"/> Small Business	<input checked="" type="checkbox"/> NOT minority/disadvantaged
<input type="checkbox"/> Asian	<input type="checkbox"/> Female	<input type="checkbox"/> Native American	<input type="checkbox"/> OTHER minority/disadvantaged—	
<b>Contractor Selection Method</b> (complete for ALL base contracts— N/A to amendments or delegated authorities)				
<input type="checkbox"/> RFP	<input type="checkbox"/> Competitive Negotiation	<input type="checkbox"/> Alternative Competitive Method		
<input type="checkbox"/> Non-Competitive Negotiation	<input type="checkbox"/> Negotiation w/ Government (e.g., ID, GG, GU)	<input type="checkbox"/> Other		
<b>Procurement Process Summary</b> (complete for selection by Alternative Method, Competitive Negotiation, Non-Competitive Negotiation, OR Other)				
N/A				